

**CHARTER OAK-UTE
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2005 Election)

Betty Lou Olson	President	2007
Bill Magill	Vice President	2006
Dean Staley		2007
Joanne Seufert		2005
Valeta Pautsch		2006

(After September, 2005 Election)

Betty Lou Olson	President	2007
Joanne Seufert	Vice President	2008
Dean Staley		2007
Bill Magill		2006
Valeta Pautsch		2006

SCHOOL OFFICIALS

Rollie Wiebers	Superintendent
Cathy Carstens	District Secretary /Treasurer

Independent Auditor's Report

To The Board of Education of the
Charter Oak-Ute Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Charter Oak-Ute Community School District, Charter Oak, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Charter Oak-Ute Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2006 on our consideration of Charter Oak-Ute Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 29 thru 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Charter Oak-Ute Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

August 10, 2006

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Charter Oak-Ute Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund Revenues decreased from \$3,081,956 in fiscal year 2005 to \$2,989,327 in fiscal year 2006, while General Fund expenditures increased from \$2,940,570 in fiscal year 2005 to \$2,989,714 in fiscal year 2006.
- The decrease in revenues can primarily be attributed to a decrease in federal and state revenue. The increase in expenses was attributed to increased maintenance and transportation costs. The general fund balance decreased by less than \$400.
- The Charter Oak-Ute Community School District collects School Infrastructure Local Option Sales Tax from Crawford and Monona Counties during the year. The amount received increased due to increased enrollment. These funds are being used to finance improvements in the District's infrastructure.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Charter Oak-Ute Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Charter Oak-Ute Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Charter Oak-Ute Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Charter Oak-Ute Community School District

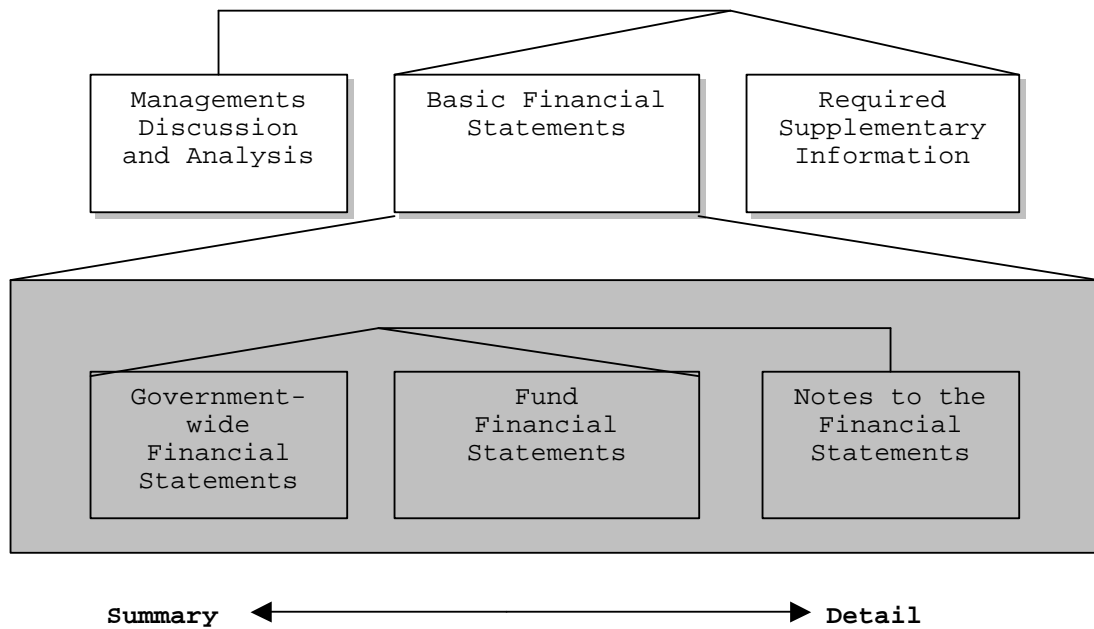


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	<ul style="list-style-type: none"> . Statement of Net Assets . Statement of Activities 	<ul style="list-style-type: none"> . Balance sheet . Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> . Statement of Net Assets . Statement of Revenues, Expenses and Changes in Net Assets . Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Current assets	2,161	1,968	4	7	2,165	1,975	9.62%
Capital assets	999	896	-	-	999	896	11.50%
Total assets	<u>3,160</u>	<u>2,864</u>	<u>4</u>	<u>7</u>	<u>3,164</u>	<u>2,871</u>	<u>10.21%</u>
Current liabilities	1,187	1,043	14	-	1,201	1,043	15.15%
Non-current liabilities	7	19	-	-	7	19	0.00%
Total liabilities	<u>1,194</u>	<u>1,062</u>	<u>14</u>	<u>-</u>	<u>1,208</u>	<u>1,062</u>	<u>13.75%</u>
Net Assets							
Invested in capital assets, net of related debt	999	896	-	-	999	896	11.50%
Restricted	277	225	-	-	277	225	23.11%
Unrestricted	690	681	(10)	7	680	688	-1.16%
Total net assets	<u>1,966</u>	<u>1,802</u>	<u>(10)</u>	<u>7</u>	<u>1,956</u>	<u>1,809</u>	<u>8.13%</u>

The District's combined net assets increased by over 8%, or approximately \$147,000 over the prior year. The largest portion of the District's net assets is invested in capital assets and cash.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased approximately \$8,000 or 1%. This decrease in unrestricted net assets was basically a breakeven of General Fund revenues and expenses.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2006 and 2005.

Figure A-4						
Change in Net Assets						
(Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total School District	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
Revenues:						
Program revenues:						
Charges for service and sales	162	135	70	60	232	195
Operating grants, contributions and restricted interest	615	665	68	73	683	738
General revenues:						
Property tax	1,082	1,025	-	-	1,082	1,025
Income surtax	133	251	-	-	133	251
Local option sales tax	173	145	-	-	173	145
Unrestricted state grants	1,257	1,296	-	-	1,257	1,296
Unrestricted investment earnings	23	11	-	-	23	11
Other	31	194	-	-	31	194
Total revenues	<u>3,476</u>	<u>3,722</u>	<u>138</u>	<u>133</u>	<u>3,614</u>	<u>3,855</u>
Program expenses:						
Governmental activities:						
Instruction	2,222	2,272	-	-	2,222	2,272
Support Services	951	876	-	-	951	876
Non-instructional programs	2	2	155	158	157	160
Other expenses	137	134	-	-	137	134
Total expenses	<u>3,312</u>	<u>3,284</u>	<u>155</u>	<u>158</u>	<u>3,467</u>	<u>3,442</u>
Change in net assets	<u>164</u>	<u>438</u>	<u>(17)</u>	<u>(25)</u>	<u>147</u>	<u>413</u>

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,475,912 and expenses were \$3,312,177.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5				
Total and Net Cost of Governmental Activities				
(Expressed in Thousands)				
	Total Cost of Services		Net Cost of Services	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	\$	\$	\$	\$
Instruction	2,222	2,272	1,559	1,584
Support Services	951	876	943	872
Non-instructional programs	2	2	2	2
Other expenses	<u>137</u>	<u>134</u>	<u>31</u>	<u>25</u>
Totals	<u>3,312</u>	<u>3,284</u>	<u>2,535</u>	<u>2,483</u>

- The cost financed by users of the District's programs was \$162,155.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$427,185.
- The net cost of governmental activities was financed with \$1,082,017 in property and other taxes and \$1,256,769 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$137,634 and expenses were \$154,665. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the District held meal prices steady. Expenses increased as a result of the Nutrition Fund not being subsidized in part by the General Fund as in past years.

INDIVIDUAL FUND ANALYSIS

As previously noted, Charter Oak-Ute Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund Highlights

- The district's General Fund financial position held steady. The District was able to purchase over \$25,000 of computers during the year, as well improvements over \$100,000 were made to District facilities. The district also carefully monitors discretionary spending to avoid decreased in fund balances. The preservation of the General Fund balance is especially important in light of the fact that the district is now on the 101% Budget Guarantee and future funding will depend more heavily on student enrollment.
- The Charter Oak-Ute Community School District's Activity Fund increased in fiscal year 2006 by approximately \$3,000 due to an increased revenue generated through gate receipts.

Proprietary Fund Highlights

The School Nutrition Fund cash balance decreased approximately \$17,000 due to increased costs in food products, fewer commodities received and in large part due to all nutrition fund payroll expenses being paid out of this fund and not the general fund.

BUDGETARY HIGHLIGHTS

The District's receipts were \$70,000 more than budgeted receipts, a variance of 2%. The most significant variance resulted from the District receiving more in restricted state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. Expenditures exceeded the budgeted amount in the Other Expenditures function but did not exceed anticipated expenditures as a whole.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$998,861, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 11% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$129,713.

The original cost of the District's capital assets was \$3,358,944. Governmental funds account for \$3,354,090, with the remainder of \$4,854 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building progress category. The District is using its Local Option Sales Tax Funds to do a variety of infrastructure projects throughout the District. The District spent \$65,617 on transportation equipment during the year as well as over \$100,000 in improvements to District facilities.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Land	1	1	-	-	1	1	0.00%
Land improvements	289	566	-	-	289	566	-48.94%
Buildings	546	170	-	-	546	170	221.18%
Furniture and equipment	163	159	-	1	163	160	1.88%
Totals	999	896	-	1	999	897	11.37%

Long-Term Debt

The District has early retirements included in its long-term debt. Early retirements will be paid from the Management Fund as they come due. The District has discontinued its Early Retirement plan.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- Declines in enrollment in future years will have serious consequences as less state aid will be received and bigger burden put on tax money.
- The increased costs in open enrollment out tuition will be there for years to come.
- Increased costs in salary expenditures and lost revenue from enrollment declines, could also force the district to consider doing away with the practice of maintaining small class section sizes at the elementary and Junior High grade levels.
- The district also relies on special state and federal funding sources to fund teacher salaries and cuts in these funding sources would have serious negative consequences for the district.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rollie Wiebers, Superintendent, Charter Oak-Ute Community School District, 321 Main Street, Charter Oak, IA 51439.

Basic Financial Statements

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business type Activities	Total
	\$	\$	\$
Assets			
Cash	842,574	-	842,574
Receivables:			
Property tax:			
Current year	16,836	-	16,836
Succeeding year	1,123,887	-	1,123,887
Income surtax - succeeding year	116,639	-	116,639
Due from other governments	12,218	-	12,218
Other receivables	18,020	-	18,020
Interfund receivable	13,966	-	13,966
Inventories	17,503	4,226	21,729
Capital assets, net of accumulated depreciation	998,861	-	998,861
Total assets	3,160,504	4,226	3,164,730
Liabilities			
Accounts payable	5,582	-	5,582
Interfund payable	-	13,966	13,966
Deferred revenue:			
Succeeding year property tax	1,123,887	-	1,123,887
Federal programs	52,869	-	52,869
Long-term liabilities:			
Portion due within one year:			
Early retirement payable (note 9)	5,058	-	5,058
Portion due after one year:			
Early retirement payable (note 9)	6,996	-	6,996
Total liabilities	1,194,392	13,966	1,208,358
Net assets			
Invested in capital assets	998,861	-	998,861
Restricted for:			
Management	15,294	-	15,294
Physical Plant and Equipment Levy	96,915	-	96,915
Capital Projects	165,366	-	165,366
Unrestricted	689,676	(9,740)	679,936
Total net assets	1,966,112	(9,740)	1,956,372

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:	2,221,796	162,155	500,627	(1,559,014)	-	(1,559,014)
Support services:						
Student services	59,723	-	-	(59,723)	-	(59,723)
Instructional staff services	49,777	-	-	(49,777)	-	(49,777)
Administration services	306,131	-	-	(306,131)	-	(306,131)
Operation and maintenance of plant services	301,336	-	8,179	(293,157)	-	(293,157)
Transportation services	234,353	-	-	(234,353)	-	(234,353)
	951,320	-	8,179	(943,141)	-	(943,141)
Non-instructional programs:						
Food service operations	2,448	-	-	(2,448)	-	(2,448)
Other expenditures:						
Facilities acquisition and construction services	-	-	-	-	-	-
AEA flowthrough	106,094	-	106,094	-	-	-
Depreciation (unallocated)*	30,519	-	-	(30,519)	-	(30,519)
	136,613	-	106,094	(30,519)	-	(30,519)
Total governmental activities	3,312,177	162,155	614,900	(2,535,122)	-	(2,535,122)

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					
			Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business type Activities	Total
Expenses	Charges for Service					
\$	\$	\$	\$	\$	\$	\$
Business type activities:						
Non-instructional programs:						
Nutrition services	154,665	69,913	67,721	-	(17,031)	(17,031)
Total	3,466,842	232,068	682,621	(2,535,122)	(17,031)	(2,552,153)
General revenues:						
Property tax levied for:						
General purposes				991,796	-	991,796
Management fund				60,008	-	60,008
Capital outlay				30,213	-	30,213
Income surtax levied for:						
Instructional support				87,938	-	87,938
Capital outlay				44,843	-	44,843
Sales tax collected for:						
Capital outlay				173,133	-	173,133
Unrestricted state grants				1,256,769	-	1,256,769
Unrestricted investment earnings				23,540	-	23,540
Other				30,617	-	30,617
Total general revenue				2,698,857	-	2,698,857
Change in net assets				163,735	(17,031)	146,704
Net assets beginning of year				1,802,377	7,291	1,809,668
Net assets end of year				1,966,112	(9,740)	1,956,372

* This amount excludes the depreciation that is included in the direct expenses of the various programs.
See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General	Capital Projects	Non-major Governmental	Total
	\$	\$	\$	\$
Assets				
Cash	549,020	153,148	140,406	842,574
Receivables:				
Property tax:				
Current year	15,406	-	1,430	16,836
Succeeding year	1,011,725	-	112,162	1,123,887
Income surtax - succeeding year	77,759	-	38,880	116,639
Due from other governments	-	12,218	-	12,218
Other receivables	18,020	-	-	18,020
Interfund receivable	13,966	-	-	13,966
Inventory	17,503	-	-	17,503
Total assets	<u>1,703,399</u>	<u>165,366</u>	<u>292,878</u>	<u>2,161,643</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	5,582	-	-	5,582
Deferred revenue:				
Succeeding year property tax	1,011,725	-	112,162	1,123,887
Succeeding year income surtax	77,759	-	38,880	116,639
Federal programs	52,869	-	-	52,869
Total liabilities	<u>1,147,935</u>	<u>-</u>	<u>151,042</u>	<u>1,298,977</u>
Fund balances:				
Unreserved	555,464	165,366	141,836	862,666
Total fund balance	<u>555,464</u>	<u>165,366</u>	<u>141,836</u>	<u>862,666</u>
Total liabilities and fund balances	<u>1,703,399</u>	<u>165,366</u>	<u>292,878</u>	<u>2,161,643</u>

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (Exhibit C)	\$ 862,666
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	998,861
Income surtax receivable is fiscal year 2006 revenue and is recognized in the accrual financial statements. However, it is not recognized in the fund financial statements prepared on the modified accrual basis	116,639
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	<u>(12,054)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,966,112</u></u>

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2006

	General	Capital Projects	Non-major Governmental	Total
	\$	\$	\$	\$
Revenues:				
Local sources				
Local tax	1,081,616	173,133	135,064	1,389,813
Tuition	162,155	-	-	162,155
Other	61,650	3,883	122,934	188,467
State sources	1,471,717	-	48	1,471,765
Federal sources	212,189	-	-	212,189
Total revenues	<u>2,989,327</u>	<u>177,016</u>	<u>258,046</u>	<u>3,424,389</u>
Expenditures:				
Instruction	<u>2,096,736</u>	<u>-</u>	<u>132,068</u>	<u>2,228,804</u>
Support services				
Student services	59,723	-	-	59,723
Instructional staff services	44,779	-	4,998	49,777
Administration services	290,732	-	15,399	306,131
Operation and maintenance of plant services	233,201	7,686	26,897	267,784
Transportation services	156,929	51,368	11,782	220,079
	<u>785,364</u>	<u>59,054</u>	<u>59,076</u>	<u>903,494</u>
Noninstructional programs:				
Food service operations	<u>1,520</u>	<u>-</u>	<u>928</u>	<u>2,448</u>
Other expenditures				
Facilities acquisition and construction services	-	103,600	24,318	127,918
AEA flowthrough	106,094	-	-	106,094
	<u>106,094</u>	<u>103,600</u>	<u>24,318</u>	<u>234,012</u>
Total expenditures	<u>2,989,714</u>	<u>162,654</u>	<u>216,390</u>	<u>3,368,758</u>
Excess (deficiency) of revenues over (under) expenditures	(387)	14,362	41,656	55,631
Fund balances beginning of year	<u>555,851</u>	<u>151,004</u>	<u>100,180</u>	<u>807,035</u>
Fund balances end of year	<u>555,464</u>	<u>165,366</u>	<u>141,836</u>	<u>862,666</u>

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ 55,631

Amounts reported for governmental activities in the
statement of activities are different because:

Income surtax receivable is fiscal year 2006 revenue and is recognized in the accrual financial statements. However, it is not recognized in the fund financial statements prepared on the modified accrual basis (1,882)

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 232,691	
Depreciation expense	<u>(129,713)</u>	102,978

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceed issues, as follows:

Issued (early retirement benefits)	-	
Repayments	<u>7,008</u>	<u>7,008</u>

Change in net assets of governmental activities (Exhibit B) \$ 163,735

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund

Year ended June 30, 2006

	<u>School Nutrition</u>
	\$
Operating revenue:	
Local sources:	
Charges for services	<u>69,913</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	54,250
Benefits	7,693
Supplies	92,629
Depreciation	<u>93</u>
Total operating expenses	<u>154,665</u>
Operating (loss)	<u>(84,752)</u>
Non-operating revenues:	
Interest on investments	32
State sources	1,925
Federal sources	<u>65,764</u>
	<u>67,721</u>
Change in net assets	(17,031)
Net assets beginning of year	<u>7,291</u>
Net assets end of year	<u><u>(9,740)</u></u>

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

	School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	69,914
Cash payments to employees for services	(61,943)
Cash payments to suppliers for goods or services	<u>(80,998)</u>
Net cash provided by (used in) operating activities	<u>(73,027)</u>
Cash flows from non-capital financing activities:	
State grants received	1,925
Federal grants received	<u>55,124</u>
Net cash provided by non-capital financing activities	<u>57,049</u>
Cash flows from investing activities:	
Interest on investments	<u>32</u>
Net increase in cash and cash equivalents	(15,946)
Cash and cash equivalents beginning of year	<u>1,980</u>
Cash and cash equivalents end of year	<u><u>(13,966)</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(84,752)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	93
Commodities used	10,640
Decrease in inventory	992
Increase in payables	<u>13,966</u>
	<u><u>(59,061)</u></u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current liabilities:	
Interfund payable	<u><u>(13,966)</u></u>
Non-cash investing, capital and financing activities:	

During the year ended June 30, 2006, the District received federal commodities valued at \$10,640.

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Charter Oak-Ute Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Charter Oak and Ute, Iowa, and agricultural area in Monona and Crawford Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Charter Oak-Ute Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Charter Oak-Ute Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Monona and Crawford County Assessor's Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund used to purchase equipment (over \$500 per item) and for major repairs and improvements to buildings and grounds as well as for infrastructure construction projects. It is funded through a one cent sales tax.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Interfund Receivable/Payable - The School Nutrition Fund is deemed to owe the General Fund \$13,966 as a result of using General Fund cash to offset a Nutrition cash deficit in a joint checking account.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1
Buildings	10,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Accrued Salaries and Benefits - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which are payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures did not exceed the amounts budgeted in any of the four functions during the year ending June 30, 2006.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

(3) Capital Assets

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>1,247</u>	<u>-</u>	<u>-</u>	<u>1,247</u>
Capital assets being depreciated:				
Buildings	1,289,421	-	-	1,289,421
Improvements other than buildings	259,424	133,274	-	392,698
Furniture and Equipment	<u>1,599,114</u>	<u>99,417</u>	<u>27,807</u>	<u>1,670,724</u>
Total capital assets being depreciated	<u>3,147,959</u>	<u>232,691</u>	<u>27,807</u>	<u>3,352,843</u>
Less accumulated depreciation for:				
Buildings	723,556	19,442	-	742,998
Improvements other than buildings	89,697	14,109	-	103,806
Furniture and Equipment	<u>1,440,070</u>	<u>96,162</u>	<u>27,807</u>	<u>1,508,425</u>
Total accumulated depreciation	<u>2,253,323</u>	<u>129,713</u>	<u>27,807</u>	<u>2,355,229</u>
Total capital assets being depreciated, net	<u>894,636</u>	<u>102,978</u>	<u>-</u>	<u>997,614</u>
Governmental activities, capital assets, net	<u>895,883</u>	<u>102,978</u>	<u>-</u>	<u>998,861</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	4,854	0	-	4,854
Less accumulated depreciation	<u>4,761</u>	<u>93</u>	<u>-</u>	<u>4,854</u>
Business type activities capital assets, net	<u>93</u>	<u>(93)</u>	<u>-</u>	<u>-</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Support services:				
Operation and maintenance of plant				33,552
Transportation				65,642
Unallocated				<u>30,519</u>
Total depreciation expenses - governmental activities				<u>129,713</u>
Business Type activities				
Food service operations				<u>93</u>

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$102,307, \$97,492, and \$94,029 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$106,094 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Risk Management

Charter Oak-Ute Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	<u>Early Retirement</u>
Balance beginning of year	\$19,062
Additions	-
Reductions	<u>7,008</u>
Balance end of year	<u>\$12,054</u>

Early Retirement

The District offered a voluntary early retirement plan to its full-time employees. Eligible employees must be at least age fifty-seven and less than sixty-two years of age and employees must have completed at least twenty years of consecutive service to the District. Employees completed an application for early retirement which must be accompanied by the employee's written resignation. Such resignations are conditional upon acceptance by the Board of the employee for the early retirement program. The District will pay \$75 of the monthly premium for the single or family health and major medical insurance coverage. An employee who was granted early retirement benefits shall also be entitled up to \$120 per month to put towards the coverage of the individual's health insurance provided by the District's insurance carrier; this is based upon \$1.00 for each unused sick leave day up to 120 days. The retiree shall be notified of termination of benefits upon reaching age of sixty-five, death, or failure to make payment.

Early retirement benefits paid during the year ended June 30, 2006, totaled \$7,008. A liability has been recorded representing the District's commitment to fund early retirement costs.

The early retirement policy was discontinued in the fiscal year ending June 30, 2006. All amounts payable are to prior year retirees.

Required Supplementary Information

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,740,435	69,945	1,810,380	1,618,519	1,618,519	191,861
State sources	1,471,765	1,925	1,473,690	1,547,903	1,547,903	(74,213)
Federal sources	212,189	65,764	277,953	326,000	326,000	(48,047)
Total revenues	<u>3,424,389</u>	<u>137,634</u>	<u>3,562,023</u>	<u>3,492,422</u>	<u>3,492,422</u>	<u>69,601</u>
Expenditures:						
Instruction	2,228,804	-	2,228,804	2,592,537	2,592,537	363,733
Support services	903,494	-	903,494	1,091,335	1,091,335	187,841
Non-instructional programs	2,448	154,665	157,113	174,728	174,728	17,615
Other expenditures	234,012	-	234,012	365,206	365,206	131,194
Total expenditures	<u>3,368,758</u>	<u>154,665</u>	<u>3,523,423</u>	<u>4,223,806</u>	<u>4,223,806</u>	<u>700,383</u>
Excess (deficiency) of revenues over (under) expenditures	55,631	(17,031)	38,600	(731,384)	(731,384)	769,984
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	55,631	(17,031)	38,600	(731,384)	(731,384)	769,984
Balance beginning of year	<u>807,035</u>	<u>7,291</u>	<u>814,326</u>	<u>775,890</u>	<u>775,890</u>	<u>38,436</u>
Balance end of year	<u><u>862,666</u></u>	<u><u>(9,740)</u></u>	<u><u>852,926</u></u>	<u><u>44,506</u></u>	<u><u>44,506</u></u>	<u><u>808,420</u></u>

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

Other Supplementary Information

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	14,343	29,627	96,436	140,406
Property tax receivable:				
Current year	951	-	479	1,430
Succeeding year	75,000	-	37,162	112,162
Income surtax - succeeding year	<u>-</u>	<u>-</u>	<u>38,880</u>	<u>38,880</u>
 Total assets	 <u>90,294</u>	 <u>29,627</u>	 <u>172,957</u>	 <u>292,878</u>
 Liabilities and Fund Balance				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	75,000	-	37,162	112,162
Succeeding year income surtax	<u>-</u>	<u>-</u>	<u>38,880</u>	<u>38,880</u>
	<u>75,000</u>	<u>-</u>	<u>76,042</u>	<u>151,042</u>
 Fund balance:				
Unreserved fund balance	<u>15,294</u>	<u>29,627</u>	<u>96,915</u>	<u>141,836</u>
 Total liabilities and fund balance	 <u>90,294</u>	 <u>29,627</u>	 <u>172,957</u>	 <u>292,878</u>

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	60,008	-	75,056	135,064
Other	497	118,686	3,751	122,934
State sources	32	-	16	48
Federal sources	-	-	-	-
Total revenues	<u>60,537</u>	<u>118,686</u>	<u>78,823</u>	<u>258,046</u>
Expenditures:				
Instruction:	16,788	115,280	-	132,068
Support services:				
Instructional staff support	-	-	4,998	4,998
Administration services	6,020	-	9,379	15,399
Plant operation and maintenance	23,705	-	3,192	26,897
Student Transportation	11,782	-	-	11,782
Non-instructional programs:				
Food service operations	928	-	-	928
Other expenditures:				
Long-term debt:				
Principal	-	-	-	-
Facilities acquisition and construction services	<u>-</u>	<u>-</u>	<u>24,318</u>	<u>24,318</u>
Total expenditures	<u>59,223</u>	<u>115,280</u>	<u>41,887</u>	<u>216,390</u>
Excess of revenues over expenditures	1,314	3,406	36,936	41,656
Fund balances beginning of year	<u>13,980</u>	<u>26,221</u>	<u>59,979</u>	<u>100,180</u>
Fund balances end of year	<u>15,294</u>	<u>29,627</u>	<u>96,915</u>	<u>141,836</u>

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Drama Club	2,399	854	528	2,725
Band/Vocal Programs	347	718	472	593
Band	-	-	(75)	75
Popcorn Fund	-	1,516	1,516	-
Vending Machine/Pop - Charter Oak	-	11,478	11,478	-
Elementary Stand	-	3,166	3,166	-
Vending Machine/Pop - Ute	-	2,786	2,786	-
Basketball - Boys/Girls	2,241	14,188	13,722	2,707
Track - Boys/Girls	-	1,053	1,053	-
Football	-	5,530	5,530	-
Baseball	-	4,021	4,021	-
Volleyball	393	2,939	3,332	-
Softball	-	6,675	6,675	-
Coaches Concession	-	1,138	1,138	-
Annual	2,270	6,570	7,748	1,092
Newspaper	667	-	204	463
Spanish Club	1,706	295	668	1,333
Pep Club	2,208	2,044	1,591	2,661
FFA National Convention	175	3,151	2,216	1,110
FFA Fund	2,442	17,425	16,936	2,931
Student Council Sr High	1,189	5,891	5,392	1,688
Class of 2007	2,005	15,657	12,434	5,228
Class of 2006	3,642	820	4,462	-
Class of 2008	1,103	-	-	1,103
Class of 2009	1,662	1,475	1,135	2,002
Class of 2010	806	2,432	1,824	1,414
Class of 2011	966	2,617	1,969	1,614
Class of 2012	-	2,996	2,108	888
Interest	-	1,251	1,251	-
Total	<u>26,221</u>	<u>118,686</u>	<u>115,280</u>	<u>29,627</u>

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source

All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Local sources:				
Property tax	1,082,017	1,025,726	1,004,649	926,121
Income surtax	134,663	132,694	105,771	104,885
School Infrastructure Local Option Sales Tax	173,133	144,714	64,545	45,802
	<u>1,389,813</u>	<u>1,303,134</u>	<u>1,174,965</u>	<u>1,076,808</u>
State sources:				
State foundation aid	1,256,985	1,294,863	865,758	929,660
Instructional support state aid	11,709	12,686	9,445	10,443
Shelter Care/Juvenile Home Aid	-	7,965	7,772	9,730
Education Excellence Program:				
Phase I	48,772	48,772	43,051	48,772
Phase II	28,986	30,207	29,692	25,799
Phase III	-	-	-	6,410
Teacher mentoring	3,900	5,200	9,100	7,800
Teacher compensation	40,182	34,403	26,951	23,886
Vocational education aid	5,306	5,389	4,440	4,724
Iowa Early Intervention Block Grant	21,900	20,297	21,328	22,581
Revenue in lieu of taxes - military credit	560	948	725	754
AEA flow-through	106,094	106,466	85,829	97,235
Evaluator training	-	1,000	-	2,000
	<u>1,524,394</u>	<u>1,568,196</u>	<u>1,104,091</u>	<u>1,189,794</u>
Federal sources:				
Title I Grants to Local Educational Agencies	92,076	81,720	50,585	50,125
Safe and Drug Free Schools and Communities	2,565	2,750	1,884	2,560
Vocational Education - Basic Grants to States	-	-	510	-
Special Education - Basic Grants to States	19,660	19,256	12,790	9,379
Innovative Education Program Strategies	1,110	1,680	4,633	-
Improving Teacher Quality - Grants to States	19,678	19,850	14,977	17,465
Rural Education Achievement Program	28,619	26,451	25,668	24,769
Star Schools	-	-	-	7,930
Grants for Assessments and Related Activities	1,903	1,806	3,410	-
Title XIX Assistance	-	-	30,786	-
Fire Safety Grant	-	-	46,463	-
Reading First	46,578	99,447	99,447	-
Other	-	2,800	-	1,007
	<u>212,189</u>	<u>255,760</u>	<u>291,153</u>	<u>113,235</u>
Total	<u>3,126,396</u>	<u>3,127,090</u>	<u>2,570,209</u>	<u>2,379,837</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Charter Oak-Ute Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Charter Oak-Ute Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charter Oak-Ute Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charter Oak-Ute Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. We noted no instances of non-compliance or other matters to be described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Charter Oak-Ute Community School District and other parties to whom Charter Oak-Ute Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Charter Oak-Ute Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

August 10, 2006

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

06-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Part II: Other Findings Related to Required Statutory Reporting:

06-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

06-II-B Certified Budget - Expenditures for the year ended June 30, 2006, did not exceed the certified budget amounts in any of the four functions.

06-II-C Questionable Disbursements - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

06-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

06-II-E Business Transactions - No business transactions between the District and District officials were noted.

06-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

- 06-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 06-II-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted..
- 06-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 06-II-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.